

Message Text

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ACTION NEA-16

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 8118

INFO AMEMBASSY BEIRUT

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SUBJECT: THE NEW SAUDI BUDGET: \$27 BILLION INCLUDING INVESTMENTS

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BEGIN SUMMARY THE SAUDI BUDGET FOR THE FISCAL YEAR
STARTING JULY 22 WAS A SURPRISE IN ONLY ONE REGARD: SAG
FOR THE FIRST TIME ADMITTED THAT IT COULD NOT REASONABLY
EXPECT TO SPEND EVEN HALF OF ITS REVENUES AND
ALLOTTED \$14.9 BILLION FOR INVESTMENTS AND ONLY \$12.6
BILLION FOR BUDGETED EXPENDITURES. EVEN SO, EXPENDITURES
WERE BUDGETED AT DOUBLE WHAT WAS ALLOTTED IN THE PRE-
VIOUS YEAR AND AT PERHAPS THREE TIMES THE ACTUAL SPENDING
OR OBLIGATION RATE.
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HEAVY SUBSIDIES FOR IMPORTS OF FOOD AND FOR AGRICULTURE ARE A FEATURE OF THE BUDGET TOGETHER WITH A 1.3 BILLION DOLLAR ALLOCATION FOR EXTERNAL ASSISTANCE AND CREDITS TO PROJECTS IN DEVELOPING COUNTRIES. SAG EMPHASITICALLY AND CLEARLY DENIED ANY INTENTION TO REVALUE THE RIAL. THE BUDGET ANNOUNCEMENT STATED THAT A WHOLLY NEW SAUDI FUND FOR THE DEVELOPMENT OF DEVELOPING COUNTRIES WILL BE ANNOUNCED IN THE COMING WEEKS TO BE INITIALLY BUDGETED AT 840 MILLION DOLLARS.

HEAVY PROJECT AND INFRASTRUCTURE ALLOCATIONS ARE ALSO INCLUDED IN THE BUDGET. THE SAUDI BUDGET IS ONLY AN INDICATOR OF THE RELATIVE LACK OF LIMITES ON SPENDING AND IS NO INDICATION OF ABSORPTION.

THE EMBASSY ESTIMATES NEW INVESTIBLE SURPLUSES WILL EXCEED \$21 BILLION BY JULY 1975. END SUMMARY

1. THE GENERAL BUDGET FOR THE HEGIRA FISCAL YEAR 1394/95, WHICH BEGAN ON JULY 22, ESTIMATES TOTAL REVENUE AT 98.2 BILLION RIYALS (\$27.6 BILLION) CLOSE TO A FIVE-FOLD INCREASE OVER THE PREVIOUS YEAR. ONLY 45 BILLION SR OF THIS (\$12.6 BILLION) HAS BEEN ALLOCATED FOR EXPENDITURE, BUT THIS IS STILL MORE THAN DOUBLE THE AMOUNT ALLOCATED IN THE PREVIOUS YEAR. ANOTHER 52.5 BILLION SR (\$14.7 BILLION) IS ALLOTTED TO "INDUSTRIAL AND AGRICULTURAL DEVELOPMENT PROJECTS BEING PLANNED FOR THE SECOND DEVELOPMENT PLAN." HOWEVER, ACTUAL INTERPRETATIONS OF THIS PHRASE IS THAT IT WILL BE AVAILABLE FOR INVESTMENT IN RESERVES OUTSIDE THE COUNTRY.

2. THE AMOUNT OBLIGATED IN THE PAST FISCAL YEAR IS ESTIMATED TO BE IN THE NEIGHBORHOOD OF \$4.5 BILLION, INCLUDING ALL EMERGENCY AID DURING AND SINCE THE WAR OF LAST OCTOBER, SO THAT SPENDING AT THE LEVEL EVEN OF THE BUDGETED EXPENDITURE FIGURE REMAINS UNREALISTIC. THE BUDGET IS NO INDICATION OF THE ACTUAL AMOUNTS THAT CAN OR WILL BE SPENT OR THE SO-CALLED ABSORPTION RATE OF THE ECONOMY. NO MORE THAN ONE-HALF OF THE EXPENDITURE BUDGET I.E., LIMITED OFFICIAL USE

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AROUND \$6 BILLION) WILL IN FACT BE OBLIGATED MUCH LESS SPENT, AND THE EMBASSY ESTIMATES THAT TOTAL INVESTIBLE SURPLUSES EVEN AT PRESENT LEVELS OF RECEIPTS (WHICH MAY ESCALATE DUE TO PRODUCTION INCREASES AND/OR A NEW SETTLEMENT WITH ARAMCO) WILL EXCEED \$21 BILLION BY JULY 1975.

3. AN IMPORTANT NEW ITEM IN THE BUDGET IS SEVERAL ALLOCATIONS FOR AID, TOTALLING SOME 4.6 BILLION SR (\$1.3

BILLION). ANNOUNCEMENT IS EXPECTED SOON OF THE CREATION OF A NEW SAUDI FUND FOR THE DEVELOPMENT OF DEVELOPING COUNTRIES FUNDED AT SR 3 BILLION (\$840 MILLION). THERE IS NO FURTHER CLUE AS TO THE TERMS ON WHICH THIS MONEY WILL BE LOANED, BUT IT IS APPARENTLY SEPARATE FROM OTHER AID FINANCING BY SAG, SUCH AS THE SPECIAL GRANTS TO EGYPT AND SYRIA AND THE CONTINUED SUBVENTIONS TO JORDAN.

4. HEAVY EXPENDITURES IN DEFENSE AND ON THE NATIONAL GUARD COMBINED WITH SECURITY AREAS OF INTERIOR TOTAL ABOUT 11 BILLION SR (\$3.1 BILLION). EDUCATION ALSO HAS A LARGE SHARE WITH MORE THAN 3 BILLION SR (\$881 MILLION). FOODSTUFFS SUBSIDIES TOTAL 800 MILLION SR (\$225 MILLION). THIS WAS A NEW DIRECT LINE ITEM IN THE BUDGET ALONG WITH A CATEGORY CALLED EMERGENCY PROJECTS OF 1,000 MILLION (\$281 MILLION) AND EXTERNAL SUBSIDIES OF 988 MILLION SR (\$287 MILLION).

5. MORE THAN 25 THOUSAND NEW CIVIL SERVICE POSITIONS ARE CALLED FOR UNDER THE NEW BUDGET, LIFTING GOVERNMENT CIVILIAN EMPLOYMENT TO MORE THAN 202 THOUSAND, OR ALMOST 15 PERCENT OF THE ESTIMATED WORK FORCE. ELEVEN PERCENT OF THE BUDGET WILL GO TO PAY THEIR SALARIES.

6. PROJECT EXPENDITURES IN THE REGULAR EXPENDITURE BUDGET TOTAL 26 BILLION SR (\$7.3 BILLION). MOST OF THE SHORTFALL IN EXPENDITURE WILL BE IN THESE PROJECT EXPENDITURES. NEW PROJECTS WILL REQUIRE OBLIGATING MORE THAN 10 BILLION SR DURING THIS YEAR ALONE (\$2.8 BILLION). THIS IS UNLIKELY TO BE MORE THAN 50 PERCENT ACCOMPLISHED.

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7. FOLLOWING WEEKS OF RUMOURS THAT THE RIYAL WAS TO BE REVALUED ONCE AGAIN, THE SAUDI ARABIAN MONETARY AGENCY ISSUED A STATEMENT SIMULTANEOUS WITH THE BRIDGES ANNOUNCEMENT THAT SUCH RUMOURS WERE COMPLETELY FALSE--THERE WOULD BE NO REVALUATION. IT DENOUNCED THE RUMORS IN THE STRONGEST TERMS.

8. DURING THE RECENT VISIT OF SECRETARY SIMON, THE PUBLICATION OF THE BUDGET WAS HARDLY TOUCHED ON, THERE WAS NO BRIEFING ON THE SUBJECT BY MINISTER ABA AL-KHAYL, AND THE WORKING GROUPS ON INDUSTRIALIZATION AND MAN-POWER OF THE NEW U.S./SAUDI ECONOMIC COMMISSION HEARD ONLY VAGUELY FROM THEIR SAUDI COLLEAGUES HOW EXTENSIVE THE BUDGET WAS FOR ALL PURPOSES. THIS IS PROBABLY REFLECTIVE OF AN INCREASING CONCENTRATION NOT ON THE

LIMITS OF SPENDING BUT ON THE LACK OF SUCH LIMITS.
AS SUCH, THE SAUDI BUDGET IS IMPORTANT ONLY AS AN INDICATOR OF HOW MUCH REVENUE IS EXPECTED AND NOT AT ALL INDICATIVE OF THE ABSORPTION RATE.
THE CREATION OF A SPECIAL SAUDI FUND FOR LOANS TO DEVELOPING COUNTRIES IS INTERESTING AND MAY BE A CONSTRUCTIVE STEP. WE SHALL BE ANXIOUS TO LEARN MORE ABOUT THE OPERATION OF THIS FUND.
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